

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Arbela Township	County Tuscola
Fiscal Year End March 31, 2007	Opinion Date May 29, 2007	Date Audit Report Submitted to State May 31, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

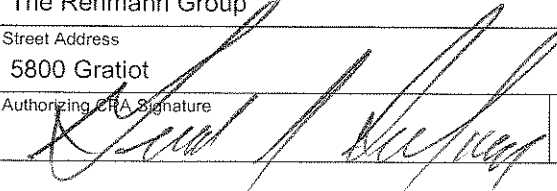
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None required	
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 989-799-9580	
Street Address 5800 Gratiot		City Saginaw	State Zip MI 48605
Authorizing CPA Signature 		Printed Name Gerald Deslover	
		License Number 1101007126	

**Arbela Township  
Millington, Michigan**

**Financial Statements**

**March 31, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

# ARBELA TOWNSHIP

## TABLE OF CONTENTS

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	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-8
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
General Fund	15
Garbage Fund	16
Police Fund	17
Fire Fund	18
Statement of Fiduciary Net Assets – Fiduciary Funds	19
Notes to Basic Financial Statements	20-28
<b>Supplementary Information</b>	
General Fund	
Schedule of Revenues – Budget and Actual	29
Schedule of Expenditures – Budget and Actual	30
Nonmajor Governmental Funds	
Balance Sheet	31
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	32
Fiduciary Funds	
Combining Balance Sheet – Fiduciary Funds	33



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

May 29, 2007

To the Township Board  
Arbela Township  
Millington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Arbela Township** as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information Arbela Township as of March 31, 2007, and the respective changes in financial position, thereof and the respective budgetary comparisons of the General Fund, Garbage Fund, Police Fund and Fire Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents on pages 3-8, is not a required part of the basic financial statement but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Arbela Township's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **Management Discussion and Analysis**

As Management of Arbela Township, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2007. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

### **Financial Highlights**

The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$1,335,975 (net assets). Of this amount \$917,450 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$131,395 from the previous year.

As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$917,450, an increase of \$155,121 in comparison with the prior year. More than 66.3 percent of this total amount, or \$608,967, is available for spending at the government's discretion (unreserved fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$163,864 or 50.1 percent of the total general fund expenditures.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include legislative, general government, public safety, public works, recreation and cultural. The Township does not have any business-type activities. The government-wide financial statements can be found on pages 9 and 10 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, garbage, police and fire funds, each of which are considered to be major funds. Data from the other governmental fund (building department fund) is listed as a single, aggregated presentation. Individual fund data for the non-major governmental fund is provided elsewhere in this report.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for governmental funds. The basic fiduciary fund financial statement can be found on page 19 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-28 of this report.

**Other Information.** The statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the accompanying notes. Combining and individual fund statements and schedules can be found on pages 29-33 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Arbela Township, assets exceeded liabilities by \$1,335,975 at the close of the most recent fiscal year.

One of the largest portions of the Township's net assets (31.3 percent) reflects its investment in capital assets. (e.g., land, buildings, equipment and vehicles). The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### **Arbela Township's Net Assets**

	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2007</b>
Current and other assets	\$ 792,866	\$ 952,088
Capital assets not being depreciated	67,552	67,552
Capital assets being depreciated	<u>374,699</u>	<u>350,973</u>
Total Assets	<u>1,235,117</u>	<u>1,370,613</u>
Liabilities, current	<u>30,537</u>	<u>34,638</u>
Net Assets:		
Invested in capital assets	442,251	418,525
Unrestricted	<u>762,329</u>	<u>917,450</u>
<b>Total net assets</b>	<b><u>\$ 1,204,580</u></b>	<b><u>\$ 1,335,975</u></b>



The Township's net assets increased by \$131,395 during the current fiscal year. This growth largely reflects the degree to which ongoing revenues exceeded ongoing expenses minus any decrease in spending.

### Arbela Township's Changes in Net Assets

	<b>Governmental Activities</b>	
	<b><u>2006</u></b>	<b><u>2007</u></b>
Revenues:		
Program revenues:		
Charges for services	\$ 69,952	\$ 64,102
Operating grants and contributions	257,790	242,804
General revenues:		
Property taxes	457,812	482,700
Unrestricted investment earnings	<u>9,635</u>	<u>23,998</u>
Total revenue	<u>795,189</u>	<u>813,604</u>
Expenses:		
Legislative	38,876	22,052
General government	218,340	245,305
Public safety	129,643	149,568
Public works	307,860	260,609
Culture and recreation	<u>4,825</u>	<u>4,675</u>
Total expenses	<u>699,544</u>	<u>682,209</u>
Increase in net assets	40,146	131,395
Net assets, beginning of year	<u>1,164,434</u>	<u>1,204,580</u>
<b>Net assets, end of year</b>	<b><u>\$ 1,204,580</u></b>	<b><u>\$ 1,335,975</u></b>

**Governmental Activities.** Governmental activities increased the Township's net assets by \$131,395 resulting in about 10.1 percent growth in the net assets of the Township. This minimal increase is a result of Township revenues and expenses remaining relatively constant, with revenues slightly out pacing expenses.

### Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$952,088, an increase of \$155,121 in comparison with the prior year. Approximately 63.9 percent of this total amount (\$608,788) constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, undesignated fund balance of the general fund was \$163,864, and total fund balance was \$326,715. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 43.2 percent of total general fund expenditures.

The fund balance of the Township's general fund increased by \$73,048 during the current fiscal year. The increase is attributable to revenues in excess of expenditures.

The fire protection fund has a total fund balance of \$89,608, which increased by \$13,194 during the year. The increase is primarily attributable to unspent revenues.

The Police Fund has a total fund balance of \$289,303, which increased by \$55,684 during the year. The increase is primarily attributable to unspent revenues.

The Garbage Fund has a total fund balance of \$210,145, which increased \$12,945. The increase is primarily attributable to unspent revenues.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets for expenditures were relatively minor and the adjustments were made as a part of the Township's budget procedures to address changes in activity during the year.

Budget to actual comparisons for the Township's general fund were generally favorable.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for its governmental activities as of March 31, 2007, amounted to \$418,525. This investment in capital assets includes land, land improvements, buildings and improvements, equipment and vehicles.

**Arbela Township's  
Capital Assets**  
(net of depreciation)

	<b>Governmental <u>Activities</u></b>
Land	\$ 67,552
Buildings and improvements	213,591
Equipment	137
Vehicles	<u>137,245</u>
<b>Total net assets</b>	<b><u>\$ 418,525</u></b>

The Township enjoys no long term debt.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Township's budget for the 2006-07 fiscal year:

The Township is comprised principally of agriculture and residential areas with one commerce corridor.

Inflationary trends in the region compare favorable to national indexes.

Increase in wages, gasoline and our five-year road plan and revenue sharing decreases.

**Requests for Information**

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Township's office, 8935 East Birch Run Road, Millington, MI 48746.

## **BASIC FINANCIAL STATEMENTS**

**ARBELA TOWNSHIP**  
**STATEMENT OF NET ASSETS**  
**MARCH 31, 2007**

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	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents	\$ 826,582
Accounts receivable	107,551
Prepays	17,955
Capital assets, net:	
Assets not being depreciated	67,552
Assets being depreciated	<u>350,973</u>
Total assets	1,370,613
Liabilities	
Accounts payable	<u>34,638</u>
Net Assets	
Invested in capital assets	418,525
Unrestricted	<u>917,450</u>
Total net assets	<u><u>\$ 1,335,975</u></u>

The accompanying notes are an integral part of these financial statements.

**ARBELA TOWNSHIP**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2007**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities:				
Legislative	\$ 22,052	\$ -	\$ -	\$ (22,052)
General government	245,305	44,811	242,804	42,310
Public safety	149,568	19,291	-	(130,277)
Public works	260,609	-	-	(260,609)
Culture and recreation	4,675	-	-	(4,675)
Total governmental activities/ primary government	<u>\$ 682,209</u>	<u>\$ 64,102</u>	<u>\$ 242,804</u>	<u>(375,303)</u>
General revenues:				
Property taxes				482,700
Unrestricted investment earnings				<u>23,998</u>
Total general revenues				<u>506,698</u>
Change in net assets				131,395
Net assets, beginning of year				<u>1,204,580</u>
Net assets, end of year				<u>\$ 1,335,975</u>

The accompanying notes are an integral part of these financial statements.

**ARBELA TOWNSHIP  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2007**

ASSETS	General	Garbage
Cash and cash equivalents	\$ 253,238	\$ 199,072
Accounts receivable	38,260	406
Taxes receivable	19,886	22,486
Prepaid expenditures	17,955	-
Total assets	<u>\$ 329,339</u>	<u>\$ 221,964</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	<u>\$ 2,624</u>	<u>\$ 11,819</u>
Fund balances:		
Unreserved -		
Designated for subsequent		
years' expenditures	162,851	-
Undesignated	163,864	210,145
Undesignated, reported in nonmajor:		
Speical revenue funds	<u>-</u>	<u>-</u>
Total fund balances	<u>326,715</u>	<u>210,145</u>
Total liabilities and fund balances	<u>\$ 329,339</u>	<u>\$ 221,964</u>

The accompanying notes are an integral part of these financial statements.

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Police	Fire	Other Governmental Fund	Total
\$ 278,712	\$ 94,012	\$ 1,548	\$ 826,582
568	207	1,547	40,988
16,759	7,432	-	66,563
-	-	-	17,955
<u>\$ 296,039</u>	<u>\$ 101,651</u>	<u>\$ 3,095</u>	<u>\$ 952,088</u>
<u>\$ 6,736</u>	<u>\$ 12,043</u>	<u>1,416</u>	<u>\$ 34,638</u>
103,132	41,000	1,500	308,483
186,171	48,608	-	608,788
-	-	179	179
<u>289,303</u>	<u>89,608</u>	<u>1,679</u>	<u>917,450</u>
<u>\$ 296,039</u>	<u>\$ 101,651</u>	<u>\$ 3,095</u>	<u>\$ 952,088</u>



**ARBELA TOWNSHIP**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**MARCH 31, 2007**

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Fund balances - total governmental funds	\$ 917,450
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: Capital assets	783,242
Subtract: Accumulated depreciation	<u>(364,717)</u>

Net assets of governmental activities	<u><u>\$ 1,335,975</u></u>
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**ARBELA TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	<u>General</u>	<u>Garbage</u>	<u>Police</u>
Revenues			
Taxes	\$ 158,349	\$ 150,183	\$ 124,368
Licenses and permits	5,471	-	-
Intergovernmental	242,804	-	-
Charges for services	10,435	-	-
Interest and rental income	29,650	5,998	8,815
Other revenue	5,510	-	3,702
	<u>452,219</u>	<u>156,181</u>	<u>136,885</u>
Total revenues			
Expenditures			
Current:			
General government	205,426	-	-
Public safety	5,177	-	80,451
Public works	115,635	143,236	-
Recreation and culture	4,675	-	-
Other expenditures	41,813	-	-
Capital outlay	6,445	-	750
	<u>379,171</u>	<u>143,236</u>	<u>81,201</u>
Total expenditures			
Net change in fund balances	73,048	12,945	55,684
Fund balances, beginning of year	<u>253,667</u>	<u>197,200</u>	<u>233,619</u>
Fund balances, end of year	<u><u>\$ 326,715</u></u>	<u><u>\$ 210,145</u></u>	<u><u>\$ 289,303</u></u>

The accompanying notes are an integral part of these financial statements.

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Fire	Other Governmental Fund	Total
<u>Fire</u>	<u>Other Governmental Fund</u>	<u>Total</u>
\$ 49,800	\$ -	\$ 482,700
-	15,531	21,002
-	-	242,804
-	-	10,435
2,858	72	47,393
58	-	9,270
<u>52,716</u>	<u>15,603</u>	<u>813,604</u>
-	-	205,426
39,522	15,353	140,503
-	-	258,871
-	-	4,675
-	-	41,813
-	-	7,195
<u>39,522</u>	<u>15,353</u>	<u>658,483</u>
13,194	250	155,121
<u>76,414</u>	<u>1,429</u>	<u>762,329</u>
<u>\$ 89,608</u>	<u>\$ 1,679</u>	<u>\$ 917,450</u>

**ARBELA TOWNSHIP**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2007**

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Net change in fund balances - total governmental funds	\$ 155,121
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Subtract: depreciation expense	<u>(23,726)</u>
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Change in net assets of governmental activities	<u><u>\$ 131,395</u></u>
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The accompanying notes are an integral part of these financial statements.

**ARBELA TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Taxes	\$ 144,468	\$ 154,963	\$ 158,349	\$ 3,386
Licenses and permits	5,325	5,471	5,471	-
Intergovernmental:				
State shared revenues	230,000	230,000	242,804	12,804
Charges for services	14,900	15,712	10,435	(5,277)
Interest and rental income	26,250	30,439	29,650	(789)
Other revenue	6,945	7,110	5,510	(1,600)
Total revenues	427,888	443,695	452,219	8,524
Expenditures				
Current:				
General government	279,702	279,952	205,426	(74,526)
Public safety	10,875	10,875	5,177	(5,698)
Public works	144,902	144,902	115,635	(29,267)
Recreation and culture	9,900	9,900	4,675	(5,225)
Other expenditures	42,630	42,630	41,813	(817)
Capital outlay	70,500	70,500	6,445	(64,055)
Total expenditures	558,509	558,759	379,171	(179,588)
Net change in fund balances	(130,621)	(115,064)	73,048	188,112
Fund balances, beginning of year	253,667	253,667	253,667	-
Fund balances, end of year	\$ 123,046	\$ 138,603	\$ 326,715	\$ 188,112

The accompanying notes are an integral part of these financial statements.

**ARBELA TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GARBAGE FUND**  
**FOR THE YEAR ENDED MARCH 31, 2007**

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	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Taxes	\$ 149,467	\$ 150,961	\$ 150,183	\$ (778)
Interest and rental income	3,500	5,987	5,998	11
Total revenues	152,967	156,948	156,181	(767)
Expenditures				
Current:				
Public works	149,967	149,967	143,236	(6,731)
Net change in fund balances	3,000	6,981	12,945	5,964
Fund balances, beginning of year	197,200	197,200	197,200	-
Fund balances, end of year	<u>\$ 200,200</u>	<u>\$ 204,181</u>	<u>\$ 210,145</u>	<u>\$ 5,964</u>

The accompanying notes are an integral part of these financial statements.

**ARBELA TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**POLICE FUND**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Taxes	\$ 117,319	\$ 121,519	\$ 124,368	\$ 2,849
Interest and rental income	3,500	8,319	8,815	496
Other revenue	3,100	3,802	3,702	(100)
Total revenues	123,919	133,640	136,885	3,245
Expenditures				
Current:				
Public safety	101,900	102,053	80,451	(21,602)
Capital outlay	22,019	22,019	750	(21,269)
Total expenditures	123,919	124,072	81,201	(42,871)
Net change in fund balances	-	9,568	55,684	46,116
Fund balances, beginning of year	233,619	233,619	233,619	-
Fund balances, end of year	\$ 233,619	\$ 243,187	\$ 289,303	\$ 46,116

The accompanying notes are an integral part of these financial statements.

**ARBELA TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FIRE FUND**  
**FOR THE YEAR ENDED MARCH 31, 2007**

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	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Taxes	\$ 50,040	\$ 50,168	\$ 49,800	\$ (368)
Interest and rental income	1,500	2,852	2,858	6
Other revenue	500	500	58	(442)
Total revenues	52,040	53,520	52,716	(804)
Expenditures				
Current:				
Public safety	51,560	51,560	39,522	(12,038)
Net change in fund balances	480	1,960	13,194	11,234
Fund balances, beginning of year	76,414	76,414	76,414	-
Fund balances, end of year	<u>\$ 76,894</u>	<u>\$ 78,374</u>	<u>\$ 89,608</u>	<u>\$ 11,234</u>

The accompanying notes are an integral part of these financial statements.



**ARBELA TOWNSHIP**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**MARCH 31, 2007**

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ASSETS		<u>Total</u>
Cash and cash equivalents		\$ 11,032
Accounts receivable		<u>18</u>
Total assets		<u><u>\$ 11,050</u></u>
LIABILITIES		
Undistributed deposits		<u><u>\$ 11,050</u></u>

The accompanying notes are an integral part of these financial statements.

**ARBELA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of *Arbela Township* (the “Township”), conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

**A. REPORTING ENTITY**

The Township has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit includes significant operational or financial relationships with the Township. Therefore, the reporting entity consists only of the primary government.

**Joint Operations** – Arbela Township participates in a joint fire services board with Millington Township. Records are maintained and funds are held by Millington Township. Arbela Township pays 40% of the fire board expenses plus a flat fee for fire runs in Arbela Township. Total Arbela Township contributions for the year ended March 31, 2007 were \$37,427.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**ARBELA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

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Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting; the agency funds use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement – based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *garbage fund* accounts for the collection of a separate tax millage that is used to fund the operations of garbage collection.

The *police fund* accounts for the collection of a separate tax millage that is used to fund the operations of the Tuscola County police officer assigned to the Township.

**ARBELA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

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The *fire fund* accounts for the collection of a separate tax millage that is used to fund the operations of fire services.

Additionally, the Township reports the following fund types:

*Agency funds* are used to account for assets held for other governments in an agency capacity, including tax collections.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

**1. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of deposits in checking accounts and savings accounts.

**2. RECEIVABLES AND PAYABLES**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**3. PREPAIDS**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**ARBELA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

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**4. CAPITAL ASSETS**

Capital assets, which include property, plant, and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized when purchased. Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-20
Buildings and improvements	5-40
Equipment	5-20
Vehicles	4-10

**5. FUND EQUITY**

Designations of unreserved fund equity in governmental funds indicate the Township's tentative plans for use of financial resources in a future period. Reserved fund equity represents amounts legally identified for specific purposes.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETS AND BUDGETARY ACCOUNTING**

Comparisons to budget are presented for the General Fund and Special Revenue Funds. The operating budget is adopted by activity for the General Fund and by function for the Special Revenue funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Any revisions that alter the total expenditures of any fund must be approved by the Township Board. Budgeted amounts are as originally adopted, or as amended by the Township Board.

**ARBELA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

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**III. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

A reconciliation of cash and investments as shown in the financial statements to the Township's deposits and investments is as follows:

	<u><b>Total</b></u>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 826,582
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>11,032</u>
	<u>\$ 837,614</u>
Notes to Financial Statements:	
Deposits	\$ 837,414
Cash on hand	<u>200</u>
<b>Total</b>	<u><b>\$ 837,614</b></u>

**Investment and deposit risk:**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township has no investments for which ratings are required.

*Custodial credit risk deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$770,933 of the Township's bank balance of \$870,933 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**ARBELA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

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The Township is authorized by statute to invest surplus funds in the following:

- ◆ Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- ◆ Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- ◆ Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- ◆ In banker's acceptances of United States banks.
- ◆ Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- ◆ Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- ◆ External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Township Board is authorized to designate depositories for Township funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Township's deposits are in accordance with statutory authority.

**B. RECEIVABLES**

Receivables in the primary government are as follows:

	<b><u>Governmental Activities</u></b>
Taxes	\$ 66,563
Accounts	<u>40,988</u>
<b>Total</b>	<b><u>\$ 107,551</u></b>

**ARBELA TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

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**C. CAPITAL ASSETS**

Capital assets activity for the year ended March 31, 2007 was as follows:

	<u><b>Beginning Balance</b></u>	<u><b>Additions</b></u>	<u><b>Disposals</b></u>	<u><b>Ending Balance</b></u>
Capital assets not being depreciated:				
Land	\$ 67,552	\$ -	\$ -	\$ 67,552
Capital assets being depreciated:				
Land improvements	17,420	-	-	17,420
Buildings and improvements	386,614	-	-	386,614
Equipment	26,080	-	-	26,080
Vehicles	<u>285,576</u>	<u>-</u>	<u>-</u>	<u>285,576</u>
Total capital assets being depreciated	<u>715,690</u>	<u>-</u>	<u>-</u>	<u>715,690</u>
Less accumulated depreciation				
Land improvements	(17,420)	-	-	(17,420)
Buildings and improvements	(164,152)	(8,871)	-	(173,023)
Equipment	(24,205)	(1,738)	-	(25,943)
Vehicles	<u>(135,214)</u>	<u>(13,117)</u>	<u>-</u>	<u>(148,331)</u>
Total accumulated depreciation	<u>(340,991)</u>	<u>(23,726)</u>	<u>-</u>	<u>(364,717)</u>
Total capital assets being depreciated, net	<u>374,699</u>	<u>(23,726)</u>	<u>-</u>	<u>350,973</u>
<b>Governmental activities capital assets, net</b>	<u><b>\$ 442,251</b></u>	<u><b>\$ (23,726)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 418,525</b></u>



**ARBELA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

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Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 8,871
Public safety	13,117
Public works	<u>1,738</u>
 <b>Total depreciation expense –         governmental activities</b>	 <b><u>\$ 23,726</u></b>

**IV. OTHER INFORMATION**

**A. DEFINED CONTRIBUTION BENEFIT PLAN**

The Township contributes to the Arbela Township Allocated Retirement Account, which is a defined contribution pension plan. The plan is administered by Manulife Financial.

Contributions made by an employee vest immediately and contributions made by the Township vest after one month of full-time employment. An employee who leaves the employment of the Township is entitled to his or her contributions and the Township's contributions if vesting requirements are satisfied, plus interest earned. The Township is required to contribute 10% of the employee's annual compensation and the employee is required to contribute 5% of their annual compensation. Plan provisions and contribution requirements are established and may be amended by the Township Board.

During the Plan year, the Township's required and actual contributions amounted to \$9,742 which was 10.0% of its covered payroll. Employees contributed \$4,871 to the Plan, which was 5.0% of covered payroll. Presently, six employees participate in the Plan.

**B. PROPERTY TAXES**

Township property taxes are attached as an enforceable lien on property as of December 1 and are due without penalty on or before March 1. Real property taxes not collected as of March 1 are turned over to Tuscola County for collection, which advances the Township 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer. Property taxes are recognized as revenue in the fiscal year in which they are levied.

**ARBELA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**

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The taxable value of real and personal property located in the Township at December 1, 2006, totaled \$64,084,516, which equals the State equalized value. The tax levy rates for general operating purposes, roads and police for that year were 1.4203 mills, .9372 mills, and 2.0000 mills, respectively.

**C. COMMITMENTS AND CONTINGENCIES**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2007, the Township carried commercial insurance to cover all risks of losses. The Township has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

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## **SUPPLEMENTARY INFORMATION**

**ARBELA TOWNSHIP  
GENERAL FUND  
SCHEDULE OF REVENUES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED MARCH 31, 2007**

	Original Budget	Amended Budget	Actual	Over (Under) Budget
<b>TAXES</b>				
Current property taxes	\$ 126,967	\$ 131,835	\$ 131,835	\$ -
Delinquent taxes and interest	17,501	23,128	26,514	3,386
Total taxes	144,468	154,963	158,349	3,386
<b>LICENSES AND PERMITS</b>				
Building permits	25	25	25	-
Metro Authority permits	5,200	5,346	5,346	-
Other licenses and permits	100	100	100	-
Total licenses and permits	5,325	5,471	5,471	-
<b>STATE SHARED REVENUE</b>	230,000	230,000	242,804	12,804
<b>CHARGES FOR SERVICES</b>				
Cemetery	2,400	3,180	1,780	(1,400)
Other charges for services	12,500	12,532	8,655	(3,877)
Total charges for services	14,900	15,712	10,435	(5,277)
<b>INTEREST AND RENTAL INCOME</b>	26,250	30,439	29,650	(789)
<b>OTHER REVENUE</b>				
Reimbursements	6,945	7,110	5,510	(1,600)
Total revenues	\$ 427,888	\$ 443,695	\$ 452,219	\$ 8,524

**ARBELA TOWNSHIP  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED MARCH 31, 2007**

	Original Budget	Amended Budget	Actual	Over (Under) Budget
<b>GENERAL GOVERNMENT</b>				
Township Board	\$ 49,152	\$ 49,222	\$ 22,052	\$ (27,170)
Township Supervisor	15,142	15,142	10,046	(5,096)
Elections	4,750	4,750	3,276	(1,474)
Assessor	38,823	38,823	27,120	(11,703)
Clerk	23,347	23,347	21,976	(1,371)
Board of Review	1,430	1,430	1,082	(348)
Treasurer	26,812	26,812	24,554	(2,258)
Cemetery	36,730	36,910	32,588	(4,322)
Township Hall	83,516	83,516	62,732	(20,784)
Total general government	<u>279,702</u>	<u>279,952</u>	<u>205,426</u>	<u>(74,526)</u>
<b>PUBLIC SAFETY</b>				
Fire	375	375	375	-
Planning commission	10,500	10,500	4,802	(5,698)
Total public safety	<u>10,875</u>	<u>10,875</u>	<u>5,177</u>	<u>(5,698)</u>
<b>PUBLIC WORKS</b>				
Highways, streets and drains	<u>144,902</u>	<u>144,902</u>	<u>115,635</u>	<u>(29,267)</u>
<b>RECREATION AND CULTURE</b>	<u>9,900</u>	<u>9,900</u>	<u>4,675</u>	<u>(5,225)</u>
<b>OTHER EXPENDITURES</b>				
Employee benefits	24,630	24,630	24,373	(257)
Insurance	18,000	18,000	17,440	(560)
Total other expenditures	<u>42,630</u>	<u>42,630</u>	<u>41,813</u>	<u>(817)</u>
<b>CAPITAL OUTLAY</b>	<u>70,500</u>	<u>70,500</u>	<u>6,445</u>	<u>(64,055)</u>
Total expenditures	<u>\$ 558,509</u>	<u>\$ 558,759</u>	<u>\$ 379,171</u>	<u>\$ (179,588)</u>

**ARBELA TOWNSHIP  
BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND  
MARCH 31, 2007**

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	Building Department Fund
	<u>Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,548
Accounts receivable	<u>1,547</u>
Total assets	<u><u>\$ 3,095</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	<u>\$ 1,416</u>
Fund balance:	
Unreserved:	
Designated for subsequent years' expenditures	1,500
Undesignated	<u>179</u>
Total fund balance	<u>1,679</u>
Total liabilities and fund balance	<u><u>\$ 3,095</u></u>

**ARBELA TOWNSHIP**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**NONMAJOR GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	Building Department Fund			Over (Under) Budget
	Original Budget	Amended Budget	Actual	
REVENUES				
Licenses and permits	\$ 18,000	\$ 18,000	\$ 15,531	\$ (2,469)
Interest and rental income	50	72	72	-
Total revenues	18,050	18,072	15,603	(2,469)
EXPENDITURES				
Current:				
Public safety	19,479	19,501	15,353	(4,148)
Net change in fund balances	(1,429)	(1,429)	250	1,679
Fund balances, beginning of year	1,429	1,429	1,429	-
Fund balances, end of year	\$ -	\$ -	\$ 1,679	\$ 1,679

**ARBELA TOWNSHIP  
FIDUCIARY FUNDS  
COMBINING BALANCE SHEET  
MARCH 31, 2007**

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	Agency Funds		Total
	General Agency	Current Tax Collection	
ASSETS			
Cash and cash equivalents	\$ 3,840	\$ 7,192	\$ 11,032
Accounts receivable	-	18	18
Total assets	<u>\$ 3,840</u>	<u>\$ 7,210</u>	<u>\$ 11,050</u>
LIABILITIES			
Undistributed deposits	<u>\$ 3,840</u>	<u>\$ 7,210</u>	<u>\$ 11,050</u>





**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

May 29, 2007

To the Township Board of Trustees  
Arbela Township  
Millington, Michigan

In planning and performing our audit of the financial statements of **Arbela Township** for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

**1) Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements**

Criteria:

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

<u>Condition:</u>	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
<u>Cause:</u>	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
<u>Effect:</u>	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
<u>View of Responsible Officials:</u>	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Arbela Township's written response to the significant deficiency identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Township Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

